

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Kochville Township	County Saginaw
Fiscal Year End March 31, 2006	Opinion Date July 13, 2006	Date Audit Report Submitted to State September 21, 2006	

We affirm that:

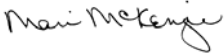
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|-------------------------------------|-------------------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo CPA's and Business Consultants		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
Zip 48602			
Authorizing CPA Signature 	Printed Name Mari McKenzie	License Number 10725	

Kochville Township

Saginaw, Michigan

**Annual Financial Statements
and
Auditors' Report**

March 31, 2006

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Kochville Township
List of Elected and Appointed Officials
March 31, 2006

Township Board

Kenneth P. Bayne – Supervisor

Crystal M. Kauer – Treasurer

George A Schnepf – Clerk

Patricia Bourdow – Trustee

Lynn Kauer – Trustee

Independent Auditors' Report

Township Board
Kochville Township
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kochville Township as of and for the year ended March 31, 2006, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kochville Township as of March 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2006 on our consideration of Kochville Township internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kochville Township's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Township has not presented Management's Discussion and Analysis that accounting principals generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

Yeo & Yeo, P.C.

July 13, 2006
Saginaw, Michigan

Kochville Township
Statement of Net Assets
March 31, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 635,298	\$ 1,658,417	\$ 2,293,715	\$ 89,135
Investments	-	-	-	57,396
Receivables				
Taxes	38,326	-	38,326	-
Customers	4,999	59,798	64,797	-
Special assessments	-	1,028,168	1,028,168	-
Accrued interest and other	10,911	1,906	12,817	-
Due from other units of government	53,382	-	53,382	-
Internal balances	(494,054)	494,054	-	-
Inventories	-	37,181	37,181	-
Capital assets not being depreciated	111,298	107,876	219,174	-
Capital assets, net of accumulated depreciation	<u>1,783,078</u>	<u>5,460,946</u>	<u>7,244,024</u>	<u>-</u>
Total assets	<u>2,143,238</u>	<u>8,848,346</u>	<u>10,991,584</u>	<u>146,531</u>
Liabilities				
Accounts payable	46,720	40,523	87,243	-
Accrued and other liabilities	101,837	8,430	110,267	-
Noncurrent liabilities				
Due within one year	7,400	26,200	33,600	-
Due in more than one year	<u>81,966</u>	<u>319,200</u>	<u>401,166</u>	<u>-</u>
Total liabilities	<u>237,923</u>	<u>394,353</u>	<u>632,276</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	1,805,010	5,007,670	6,812,680	-
Unrestricted	<u>100,305</u>	<u>3,446,323</u>	<u>3,546,628</u>	<u>146,531</u>
Total net assets	<u>\$ 1,905,315</u>	<u>\$ 8,453,993</u>	<u>\$ 10,359,308</u>	<u>\$ 146,531</u>

See Accompanying Notes to Financial Statements

Kochville Township
Statement of Activities
For the Year Ended March 31, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 301,018	\$ -	\$ -	\$ -	\$ (301,018)	\$ -	\$ (301,018)	\$ -
Public safety	324,384	25,465	18,270	142,047	(138,602)	-	(138,602)	-
Public works	423,993	258,746	-	-	(165,247)	-	(165,247)	-
Community and economic development	114,340	-	-	-	(114,340)	-	(114,340)	-
Recreation and culture	23,252	1,250	-	401,868	379,866	-	379,866	-
Total governmental activities	<u>1,186,987</u>	<u>285,461</u>	<u>18,270</u>	<u>543,915</u>	<u>(339,341)</u>	<u>-</u>	<u>(339,341)</u>	<u>-</u>
Business-type activities								
Sewer	353,860	239,434	-	152,900	-	38,474	38,474	-
Water	641,367	711,652	-	-	-	70,285	70,285	-
Total business-type activities	<u>995,227</u>	<u>951,086</u>	<u>-</u>	<u>152,900</u>	<u>-</u>	<u>108,759</u>	<u>108,759</u>	<u>-</u>
Total primary government	<u>\$ 2,182,214</u>	<u>\$ 1,236,547</u>	<u>\$ 18,270</u>	<u>\$ 696,815</u>	<u>(339,341)</u>	<u>108,759</u>	<u>(230,582)</u>	<u>-</u>
Component unit								
Downtown Development Authority	<u>\$ 207,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(207,281)</u>
General revenues								
Property taxes					251,851	-	251,851	87,980
State shared revenue					222,416	-	222,416	-
Unrestricted investment earnings					52,371	99,150	151,521	3,484
Gain on sale of capital assets					2,550	-	2,550	-
Miscellaneous					152,212	9,757	161,969	20,334
Transfers					169,200	(169,200)	-	-
Total general revenues and transfers					<u>850,600</u>	<u>(60,293)</u>	<u>790,307</u>	<u>111,798</u>
Change in net assets					511,259	48,466	559,725	(95,483)
Net assets - beginning of year					<u>1,394,056</u>	<u>8,405,527</u>	<u>9,799,583</u>	<u>242,014</u>
Net assets - end of year					<u>\$ 1,905,315</u>	<u>\$ 8,453,993</u>	<u>\$ 10,359,308</u>	<u>\$ 146,531</u>

See Accompanying Notes to Financial Statements

Kochville Township
Governmental Funds
Balance Sheet
March 31, 2006

	<u>Special Revenue Funds</u>			Total
	<u>General</u>	<u>Fire</u>	<u>Building Inspection</u>	<u>Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 472,224	\$ 102,664	\$ 60,410	\$ 635,298
Receivables				
Taxes	32,645	5,681	-	38,326
Customers	-	4,999	-	4,999
Accrued interest and other	2,615	8,296	-	10,911
Due from other units of government	<u>53,382</u>	<u>-</u>	<u>-</u>	<u>53,382</u>
Total assets	<u>\$ 560,866</u>	<u>\$ 121,640</u>	<u>\$ 60,410</u>	<u>\$ 742,916</u>
Liabilities				
Accounts payable	\$ 36,761	\$ 9,959	\$ -	\$ 46,720
Accrued and other liabilities	99,932	-	-	99,932
Advance from other funds	494,054	-	-	494,054
Deferred revenue	<u>30,861</u>	<u>5,681</u>	<u>-</u>	<u>36,542</u>
Total liabilities	<u>661,608</u>	<u>15,640</u>	<u>-</u>	<u>677,248</u>
Fund Balances (Deficit)				
Unreserved, reported in				
General fund	(100,742)	-	-	(100,742)
Special revenue funds	<u>-</u>	<u>106,000</u>	<u>60,410</u>	<u>166,410</u>
Total fund balances (deficit)	<u>(100,742)</u>	<u>106,000</u>	<u>60,410</u>	<u>65,668</u>
Total liabilities and fund balances (deficit)	<u>\$ 560,866</u>	<u>\$ 121,640</u>	<u>\$ 60,410</u>	<u>\$ 742,916</u>

See Accompanying Notes to Financial Statements

Kochville Township
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
March 31, 2006

Total fund balances for governmental funds	\$ 65,668
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,894,376
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	36,542
Certain liabilities are not due and payable in the current period and are not reported in the funds. Accrued interest	(1,905)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(89,366)</u>
Net assets of governmental activities	<u><u>\$ 1,905,315</u></u>

Kochville Township
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2006

	Special Revenue Funds			Total Governmental Funds
	General	Fire	Building Inspection	
Revenues				
Taxes	\$ 249,435	\$ -	\$ -	\$ 249,435
Licenses and permits	14,055	-	130,944	144,999
Federal grants	-	161,665	-	161,665
State revenue sharing	223,467	-	-	223,467
Other state grants	381,379	18,270	-	399,649
Local contributions	2,410	-	-	2,410
Charges for services	111,711	25,465	938	138,114
Interest income	50,277	1,246	848	52,371
Other revenue	49,275	146,081	149	195,505
Total revenues	<u>1,082,009</u>	<u>352,727</u>	<u>132,879</u>	<u>1,567,615</u>
Expenditures				
Current				
General government	293,029	-	-	293,029
Public safety	-	140,309	-	140,309
Public works	327,886	-	96,107	423,993
Community and economic development	114,340	-	-	114,340
Recreation and culture	23,252	-	-	23,252
Capital outlay	<u>824,549</u>	<u>275,918</u>	<u>6,986</u>	<u>1,107,453</u>
Total expenditures	<u>1,583,056</u>	<u>416,227</u>	<u>103,093</u>	<u>2,102,376</u>
Excess (deficiency) of revenues over expenditures	<u>(501,047)</u>	<u>(63,500)</u>	<u>29,786</u>	<u>(534,761)</u>
Other financing sources (uses)				
Transfers in	213,523	-	-	213,523
Transfers out	-	(25,523)	(18,800)	(44,323)
Issuance of debt	-	89,366	-	89,366
Sale of fixed assets	<u>-</u>	<u>2,550</u>	<u>-</u>	<u>2,550</u>
Total other financing sources and uses	<u>213,523</u>	<u>66,393</u>	<u>(18,800)</u>	<u>261,116</u>
Net change in fund balance	(287,524)	2,893	10,986	(273,645)
Fund balance - beginning of year	<u>186,782</u>	<u>103,107</u>	<u>49,424</u>	<u>339,313</u>
Fund balance - end of year	<u>\$ (100,742)</u>	<u>\$ 106,000</u>	<u>\$ 60,410</u>	<u>\$ 65,668</u>

See Accompanying Notes to Financial Statements

Kochville Township
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2006

Net change in fund balances - Total governmental funds \$ (273,645)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(48,880)
Capital outlay	964,138

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue
in the funds.

State shared revenue	(1,051)
Grants	(19,618)
Property taxes	2,416
Other revenue	(22,866)

Expenses are recorded when incurred in the statement of activities
Accrued interest

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Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Debt issued	<u>(89,366)</u>
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Change in net assets of governmental activities	<u>\$ 511,259</u>
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See Accompanying Notes to Financial Statements

Kochville Township
Proprietary Funds
Statement of Net Assets
March 31, 2006

	Enterprise Funds		
	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 736,282	\$ 922,135	\$ 1,658,417
Receivables			
Customers	19,033	40,765	59,798
Accrued interest and other	-	1,906	1,906
Inventories	-	37,181	37,181
Total current assets	<u>755,315</u>	<u>1,001,987</u>	<u>1,757,302</u>
Noncurrent assets			
Special assessments receivable, deferred	324,256	703,912	1,028,168
Advances to other funds	240,000	254,054	494,054
Capital assets not being depreciated	63,729	44,147	107,876
Capital assets, net of accumulated depreciation	<u>2,409,870</u>	<u>3,051,076</u>	<u>5,460,946</u>
Total noncurrent assets	<u>3,037,855</u>	<u>4,053,189</u>	<u>7,091,044</u>
Total assets	<u>3,793,170</u>	<u>5,055,176</u>	<u>8,848,346</u>
Liabilities			
Current liabilities			
Accounts payable	19,146	21,377	40,523
Accrued and other liabilities	8,430	-	8,430
Current portion of noncurrent liabilities	<u>26,200</u>	<u>-</u>	<u>26,200</u>
Total current liabilities	<u>53,776</u>	<u>21,377</u>	<u>75,153</u>
Noncurrent liabilities			
Long-term debt net of current portion	<u>319,200</u>	<u>-</u>	<u>319,200</u>
Total liabilities	<u>372,976</u>	<u>21,377</u>	<u>394,353</u>
Net Assets			
Invested in capital assets, net of related debt	2,128,199	3,095,223	5,223,422
Unrestricted	<u>1,291,995</u>	<u>1,938,576</u>	<u>3,230,571</u>
Total net assets	<u>\$ 3,420,194</u>	<u>\$ 5,033,799</u>	<u>\$ 8,453,993</u>

See Accompanying Notes to Financial Statements

Kochville Township
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended March 31, 2006

	Enterprise Funds		
	Sewer	Water	Total
Operating revenue			
Customer fees	\$ 239,434	\$ 480,678	\$ 720,112
Connection fees	152,899	230,974	383,873
Other revenue	-	9,758	9,758
Total operating revenue	392,333	721,410	1,113,743
Operating expenses			
Personnel services	53,816	129,201	183,017
Supplies	2,479	326,282	328,761
Contractual services	13,000	28,111	41,111
Utilities	158,603	543	159,146
Repairs and maintenance	-	25,668	25,668
Other expenses	3,161	10,901	14,062
Depreciation	97,105	120,661	217,766
Total operating expenses	328,164	641,367	969,531
Operating income	64,169	80,043	144,212
Nonoperating revenue (expenses)			
Interest income	30,285	68,865	99,150
Interest expense	(25,696)	-	(25,696)
Total nonoperating revenues (expenses)	4,589	68,865	73,454
Income before contributions and transfers out	68,758	148,908	217,666
Transfers out	(94,000)	(75,200)	(169,200)
Change in net assets	(25,242)	73,708	48,466
Net assets - beginning of year	3,445,436	4,960,091	8,405,527
Net assets - end of year	\$ 3,420,194	\$ 5,033,799	\$ 8,453,993

See Accompanying Notes to Financial Statements

Kochville Township
Proprietary Funds
Statement of Cash Flows
For the Year Ended March 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 403,485	\$ 730,330	\$ 1,133,815
Payments to suppliers	(189,779)	(380,714)	(570,493)
Payments to employees	(53,816)	(129,201)	(183,017)
Net cash provided by operating activities	<u>159,890</u>	<u>220,415</u>	<u>380,305</u>
Cash flows from noncapital financing activities			
Transfers to other funds	(94,000)	(75,200)	(169,200)
Advances to other funds	(240,000)	(254,054)	(494,054)
Net cash used by noncapital financing activities	<u>(334,000)</u>	<u>(329,254)</u>	<u>(663,254)</u>
Cash flows from capital and related financing activities			
Proceeds from special assessments	38,926	102,187	141,113
Purchases/construction of capital assets	(14,577)	(74,396)	(88,973)
Principal and interest paid on long-term debt	(51,296)	-	(51,296)
Repayment of interfund borrowings	-	271,434	271,434
Net cash provided (used) by capital and related financing activities	<u>(26,947)</u>	<u>299,225</u>	<u>272,278</u>
Cash flows from investing activities			
Interest received	<u>30,285</u>	<u>76,023</u>	<u>106,308</u>
Net increase (decrease) in cash and cash equivalents	(170,772)	266,409	95,637
Cash and cash equivalents - beginning of year	<u>907,054</u>	<u>655,726</u>	<u>1,562,780</u>
Cash and cash equivalents - end of year	<u>\$ 736,282</u>	<u>\$ 922,135</u>	<u>\$ 1,658,417</u>

See Accompanying Notes to Financial Statements

Kochville Township
Proprietary Funds
Statement of Cash Flows
For the Year Ended March 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income	\$ 64,169	\$ 80,043	\$ 144,212
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	97,105	120,661	217,766
Changes in assets and liabilities			
Receivables (net)	11,152	8,920	20,072
Inventories	-	31,886	31,886
Accounts payable	2,973	37	3,010
Accrued and other liabilities	<u>(15,509)</u>	<u>(21,132)</u>	<u>(36,641)</u>
Net cash provided by operating activities	<u>\$ 159,890</u>	<u>\$ 220,415</u>	<u>\$ 380,305</u>

See Accompanying Notes to Financial Statements

Kochville Township
Fiduciary Funds
Statement of Assets and Liabilities
March 31, 2006

	Agency Funds
Assets	
Cash and cash equivalents	\$ <u>6,514</u>
Liabilities	
Accounts payable	\$ 3,564
Due to other units of government	<u>2,950</u>
 Total liabilities	 \$ <u>6,514</u>

See Accompanying Notes to Financial Statements

Kochville Township
Notes to Financial Statements
March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Kochville Township is governed by an elected five-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the Government's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the Government. The members of the Governing Board of the Downtown Development Authority are appointed by the Township Board. The budgets and expenditures of the Downtown Development Authority must be approved by the Township Board. The Government also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the Kochville Township annual financial statements.

Joint Venture

Kochville Township entered into a joint venture with the City of Zilwaukee, Carrollton Township and the Charter Township of Saginaw to create the Northwest Utilities Authority. This Authority was established to operate and service the sewage transmission system to the City of Saginaw's waste water treatment plant. The Authority sold bonds to construct the system of which the portion Kochville Township is liable for is based on the pro-rata share of the average of the past

three years of metered flow readings. Monthly payments are made to the Authority for operation and maintenance, for capital improvements and for debt service. Separate financial statements are issued by the Northwest Utilities Authority.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Kochville Township
Notes to Financial Statements
March 31, 2006

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for the revenue and expenditures for the government's fire protection.

The Building Inspection Fund accounts for the revenue and expenditures of the government's building inspection operation.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Additionally, the government reports the following:

The Agency Funds account for property tax and other deposits collected on behalf of other units and individuals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are

Kochville Township
Notes to Financial Statements
March 31, 2006

reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term

investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the government totaled \$165,987,643, on which ad valorem taxes consisted of 0.9766 mills for operating purposes. This resulted in \$162,104 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventories and prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and

Kochville Township

Notes to Financial Statements

March 31, 2006

equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

Compensated absences –There is no liability for unpaid accumulated vacation and sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds

payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Kochville Township

Notes to Financial Statements

March 31, 2006

Prior to March 31, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 31.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Township Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Township Board.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
General government	\$ 236,375	\$ 293,029	\$ 56,654
Parks and recreation	18,650	23,252	4,602
Capital outlay	697,775	824,549	126,774
Fire Fund			
Capital outlay	207,700	275,918	68,218
Building inspection			
Public works	64,200	96,107	31,907
Transfers out	-	18,800	18,800

Deficit budget and deficit fund balance

For the fiscal year ended March 31, 2006 the Township adopted a deficit budget in its General Fund in the amount of \$148,850. Township operations resulted in a General Fund deficit of \$100,742 for the year ended March 31, 2006. The fiscal year 2007 adopted General Fund budget does not eliminate this deficit. The Township is required to file a deficit elimination plan with the Treasurer of the State

of Michigan within 90 days of the end of the fiscal year in which the deficit was realized. As of the date of this report, this plan had not been filed with the State of Michigan.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Governmental activities	\$ 635,298	\$ -
Business-type activities	1,658,417	-
Total primary government	2,293,715	-
Fiduciary funds	6,514	-
Component unit	89,135	57,396
Total	<u>\$ 2,389,364</u>	<u>\$ 57,396</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 2,293,515	\$ 6,514	\$ 89,135
Investments in securities, mutual funds and similar vehicles	-	-	57,396
Petty cash and cash on hand	200	-	-
	<u>\$ 2,293,715</u>	<u>\$ 6,514</u>	<u>\$ 146,531</u>

Kochville Township
Notes to Financial Statements
March 31, 2006

As of year end, the government had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
Money market	\$ 57,396	Daily	Unrated	

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 1,348,401 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the government's investment policy, the government's investments are held by a counterparty and are not insured.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	<u>Due After One Year</u>
Primary government	
Special assessments	
Sewer	\$ 324,256
Water	<u>703,912</u>
	<u>\$ 1,028,168</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 16,527
Property taxes	<u>20,015</u>
	<u>\$ 36,542</u>

Kochville Township

Notes to Financial Statements

March 31, 2006

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 111,298	\$ -	\$ -	\$ 111,298
Capital assets being depreciated				
Land improvements	73,221	469,877	-	543,098
Buildings, additions and improvements	546,098	359,892	-	905,990
Machinery and equipment	258,426	117,901	-	376,327
Vehicles	601,270	16,468	-	617,738
Total capital assets being depreciated	1,479,015	964,138	-	2,443,153
Less accumulated depreciation for				
Land improvements	-	4,882	-	4,882
Buildings, additions and improvements	215,940	13,652	-	229,592
Machinery and equipment	188,558	20,229	-	208,787
Vehicles	206,697	10,117	-	216,814
Total accumulated depreciation	611,195	48,880	-	660,075
Net capital assets being depreciated	867,820	915,258	-	1,783,078
Governmental activities capital assets, net	\$ 979,118	\$ 915,258	\$ -	\$ 1,894,376
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 60,321	\$ 47,555	\$ -	\$ 107,876
Capital assets being depreciated				
Machinery and equipment	131,352	22,302	-	153,654
Vehicles	71,338	-	-	71,338
Water system	4,212,757	13,522	-	4,226,279
Sewer system	3,880,301	5,594	-	3,885,895
Total capital assets being depreciated	8,295,748	41,418	-	8,337,166
Less accumulated depreciation for				
Machinery and equipment	30,623	17,491	-	48,114
Vehicles	42,776	11,471	-	54,247
Sewer system	2,585,060	188,799	-	2,773,859
Total accumulated depreciation	2,658,459	217,761	-	2,876,220
Net capital assets being depreciated	5,637,289	(176,343)	-	5,460,946
Business-type capital assets, net	\$ 5,697,610	\$ (128,788)	\$ -	\$ 5,568,822

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 8,120
Public safety	40,760
Total governmental activities	48,880
Business-type activities	
Sewer	97,105
Water	120,661
Total business-type activities	217,766
Total primary government	\$ 266,646

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

Advances at year end are as follows:

Advances due to/from other funds		
General	Water	\$ 254,054
General	Sewer	240,000
		<u>494,054</u>
		\$ 494,054

The general fund is planning on repaying the advances plus interest with excess general fund revenues in the coming year.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Fire	General	\$ 25,523
Building inspection	General	18,800
Sewer	General	94,000
Water	General	75,200
		\$ 213,523

Kochville Township
Notes to Financial Statements
March 31, 2006

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

NOTE 7 - LEASES

Operating Leases

The government leases a copier under non-cancelable operating leases. Total costs for such leases were \$ 4,608 for the year ending March 31, 2006. The future minimum lease payments for these leases are as follows:

Year ending December 31,

2007	\$ 4,608
2008	4,608
2009	<u>3,072</u>
	<u>\$ 12,288</u>

Kochville Township
Notes to Financial Statements
March 31, 2006

NOTE 8 - LONG-TERM DEBT

The government has entered into a contract payable to provide for the acquisition and construction of major capital projects. Contract payables are direct obligations and pledge the full faith and credit of the government.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
Contract payable									
Fire Rescue Vehicle	\$89,366	2015	4.125%	\$7,400 - \$10,648	\$ -	\$ 89,366	\$ -	\$ 89,366	\$ 7,400
Business-type activities									
Bonds and notes payable									
Contracts payable									
Northwest Utilities Authority	\$2,970,000	2017	4.5-5.5%	\$26,200 - \$36,200	\$ 371,000	\$ -	\$ 25,600	\$ 345,400	\$ 26,200

Kochville Township
Notes to Financial Statements
March 31, 2006

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 7,400	\$ 3,686	\$ 26,200	\$ 15,833
2008	7,706	3,381	27,500	14,392
2009	8,023	3,063	28,100	13,127
2010	8,354	2,732	29,400	11,862
2011	8,699	2,388	31,200	10,539
2012-2016	49,184	6,250	166,800	31,334
2017	-	-	36,200	1,629
	<u>\$ 89,366</u>	<u>\$ 21,500</u>	<u>\$ 345,400</u>	<u>\$ 98,716</u>

NOTE 9 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEM – DEFINED CONTRIBUTION PLAN

The Township has a defined contribution money purchase pension plan (the Plan) covering all employees who are at least 18 years of age. New employees are enrolled as Plan participants on April 1, the first day of each Plan year. The Plan is administered by the Township Office Manager and its activities are accounted for in the Pension Trust Fund of the Township's basic financial statements.

Required annual contributions to the Plan are based on each employee's annual compensation. Currently, the Township contributes 100% of the total required annual contribution. Employees may elect to make voluntary contributions to the Plan through payroll withholdings. Total annual contributions are subject to the Internal Revenue Code limitations. The Township's contributions are fully vested for each employee upon the earlier of the completion of twenty months of service, reaching 65 years of age, permanent disability, or death.

The Township's payroll covered under the Plan for the year ended March 31, 2006 was \$147,146. The Township's required annual contribution to the Plan was \$39,814. There was no employee contributions made.

NOTE 11 - DEFERRED COMPENSATION PLAN

The government Board offers all government employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property taxes	\$ 157,000	\$ 157,000	\$ 178,779	\$ 21,779
Other taxes	(2,000)	(2,000)	-	2,000
Penalties and interest	-	-	63	63
Administration fee	60,000	60,000	70,593	10,593
Licenses and permits	10,000	10,000	14,055	4,055
State revenue sharing	200,000	200,000	223,467	23,467
State grants	389,600	389,600	381,379	(8,221)
Local contributions	-	-	2,410	2,410
Charges for services	114,000	114,000	111,711	(2,289)
Interest income	3,000	3,000	50,277	47,277
Other revenue	3,000	3,000	49,275	46,275
Transfer in	295,523	295,523	213,523	(82,000)
Total revenues	<u>1,230,123</u>	<u>1,230,123</u>	<u>1,295,532</u>	<u>65,409</u>
Expenditures				
General government				
Township board	16,700	16,700	16,511	(189)
Supervisor	31,830	27,000	26,719	(281)
Accounting	111,500	109,500	129,236	19,736
Clerk	21,400	22,125	21,910	(215)
Board of review	2,200	2,200	932	(1,268)
Treasurer	28,700	26,700	27,602	902
Assessor	18,500	18,500	19,373	873
Elections	1,450	3,450	3,507	57
Buildings and grounds	10,200	10,200	47,239	37,039
Total general government	<u>242,480</u>	<u>236,375</u>	<u>293,029</u>	<u>56,654</u>

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public works				
Drains	\$ 12,000	\$ 12,000	\$ 6,558	\$ (5,442)
Highways, streets and bridges	412,500	382,500	223,636	(158,864)
Street lighting	12,500	12,500	8,647	(3,853)
Sanitary land fill	88,000	88,000	89,045	1,045
Total public works	<u>525,000</u>	<u>495,000</u>	<u>327,886</u>	<u>(167,114)</u>
Planning	68,675	115,855	113,240	(2,615)
Zoning	<u>2,100</u>	<u>2,100</u>	<u>1,100</u>	<u>(1,000)</u>
Total community and economic development	<u>70,775</u>	<u>117,955</u>	<u>114,340</u>	<u>(3,615)</u>
Recreation and culture				
Parks and recreation	<u>18,650</u>	<u>18,650</u>	<u>23,252</u>	<u>4,602</u>
Capital outlay	<u>708,850</u>	<u>697,775</u>	<u>824,549</u>	<u>126,774</u>
Total expenditures	<u>1,565,755</u>	<u>1,565,755</u>	<u>1,583,056</u>	<u>17,301</u>
Excess (deficiency) of revenues over expenditures	(335,632)	(335,632)	(287,524)	48,108
Fund balance - beginning of year	<u>186,782</u>	<u>186,782</u>	<u>186,782</u>	<u>-</u>
Fund balance (deficit) - end of year	<u>\$ (148,850)</u>	<u>\$ (148,850)</u>	<u>\$ (100,742)</u>	<u>\$ 48,108</u>

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
Fire Fund
For the Year Ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal grants	\$ 160,000	\$ 160,000	\$ 161,665	\$ 1,665
Other state grants	-	-	18,270	18,270
Charges for services	43,000	43,000	25,465	(17,535)
Interest income	-	-	1,246	1,246
Other revenue	140,000	140,000	146,081	6,081
Sale of fixed assets	-	-	2,550	2,550
Bond/note proceeds	-	-	89,366	89,366
	<u>343,000</u>	<u>343,000</u>	<u>444,643</u>	<u>101,643</u>
Total revenues				
Expenditures				
Current				
Public safety	152,845	152,845	140,309	(12,536)
Capital outlay	207,700	207,700	275,918	68,218
Transfers out	25,523	25,523	25,523	-
	<u>386,068</u>	<u>386,068</u>	<u>441,750</u>	<u>55,682</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(43,068)	(43,068)	2,893	45,961
Fund balance - beginning of year	<u>103,107</u>	<u>103,107</u>	<u>103,107</u>	<u>-</u>
Fund balance - end of year	<u>\$ 60,039</u>	<u>\$ 60,039</u>	<u>\$ 106,000</u>	<u>\$ 45,961</u>

Kochville Township
Required Supplemental Information
Budgetary Comparison Schedule
Building Inspection
For the Year Ended March 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 67,000	\$ 67,000	\$ 130,944	\$ 63,944
Charges for services	-	-	938	938
Interest income	-	-	848	848
Other revenue	-	-	149	149
	<u>67,000</u>	<u>67,000</u>	<u>132,879</u>	<u>65,879</u>
Expenditures				
Current				
Public works	64,200	64,200	96,107	31,907
Capital outlay	29,550	29,550	6,986	(22,564)
Transfers out	-	-	18,800	18,800
	<u>93,750</u>	<u>93,750</u>	<u>121,893</u>	<u>28,143</u>
Excess (deficiency) of revenues over expenditures	(26,750)	(26,750)	10,986	37,736
Fund balance - beginning of year	<u>49,424</u>	<u>49,424</u>	<u>49,424</u>	<u>-</u>
Fund balance - end of year	<u>\$ 22,674</u>	<u>\$ 22,674</u>	<u>\$ 60,410</u>	<u>\$ 37,736</u>

Kochville Township
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended March 31, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 442,628	\$ 442,628	\$ 87,980	\$ (354,648)
Interest income	-	-	3,484	3,484
Other revenue	-	-	20,334	20,334
Total revenues	<u>442,628</u>	<u>442,628</u>	<u>111,798</u>	<u>(330,830)</u>
Expenditures				
Current				
Public works	55,000	55,000	28,186	(26,814)
Other functions	-	-	15	15
Capital outlay	<u>210,700</u>	<u>213,525</u>	<u>179,080</u>	<u>(34,445)</u>
Total expenditures	<u>265,700</u>	<u>268,525</u>	<u>207,281</u>	<u>(61,244)</u>
Excess (deficiency) of revenues over expenditures	176,928	174,103	(95,483)	(269,586)
Fund balance - beginning of year	<u>242,014</u>	<u>242,014</u>	<u>242,014</u>	<u>-</u>
Fund balance - end of year	<u>\$ 418,942</u>	<u>\$ 416,117</u>	<u>\$ 146,531</u>	<u>\$ (269,586)</u>

Kochville Township
Other Supplemental Information
Schedule of Indebtedness
March 31, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Total
Business-type Activities	5.50%	05/01/06	\$ 26,200	\$ 15,833	\$ 42,033
Contract payable - Northwest	4.60%	05/01/07	27,500	14,392	41,892
Utilities Authority	4.50%	05/01/08	28,100	13,127	41,227
Amount of issue - \$ 2,970,000	4.50%	05/01/09	29,400	11,862	41,262
Township share based on 2004-2005	4.50%	05/01/10	30,000	10,539	40,539
usage of 12.491%	4.50%	05/01/11	31,200	9,189	40,389
	4.50%	05/01/12	32,500	7,785	40,285
	4.50%	05/01/13	33,700	6,323	40,023
	4.50%	05/01/14	35,000	4,806	39,806
	4.50%	05/01/15	35,600	3,231	38,831
	4.50%	05/01/16	36,200	1,629	37,829
			<u>\$ 345,400</u>	<u>\$ 98,716</u>	<u>\$ 444,116</u>
Governmental Activities	4.125%	12/01/06	\$ 7,400	\$ 3,686	\$ 11,086
Contract payable - fire rescue vehicle	4.125%	12/01/07	7,706	3,381	11,087
Amount of issue - \$ 89,366	4.125%	12/01/08	8,023	3,063	11,086
	4.125%	12/01/09	8,354	2,732	11,086
	4.125%	12/01/10	8,699	2,388	11,087
	4.125%	12/01/11	9,058	2,029	11,087
	4.125%	12/01/12	9,431	1,655	11,086
	4.125%	12/01/13	9,821	1,266	11,087
	4.125%	12/01/14	10,226	861	11,087
	4.125%	12/01/15	10,648	439	11,087
			<u>\$ 89,366</u>	<u>\$ 21,500</u>	<u>\$ 110,866</u>

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

Township Board
Kochville Township
Saginaw, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kochville Township as of and for the year ended March 31, 2006, which collectively comprise Kochville Township's basic financial statements and have issued our report thereon dated July 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Kochville Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kochville Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

1. Public Act 275 requires that a local unit of government not end the year in a deficit position. In addition, the act requires that if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the next fiscal year to correct this condition. The Township has not filed such a plan and is at risk of having a portion of its revenue sharing monies withheld.
2. Public Act 621 requires that a local unit of government adopt a balanced budget. The Township's adopted fiscal year 2005/06 budget was a deficit budget projecting \$148,850 of expenditures over revenues and fund balance. The Township's adopted fiscal year 2006/07 budget was also a deficit budget.
3. Public Act 621 requires that the local unit of government not spend monies in excess of appropriated amounts. The fiscal year 2005/06 budget and actual results of operations showed excess general fund expenditures of \$17,301 over appropriated amounts.

This report is intended for the information of Kochville Township's, management and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

July 13, 2006
Saginaw, Michigan



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

September 16, 2006

To the Township Board
Kochville Township

In planning and performing our audit of the financial statements of Kochville Township for the year ended March 31, 2006, we considered the Township's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated July 13, 2006, on the financial statements of Kochville Township.

Current Year Comment

General Fund Deficit

The Township adopted a deficit budget for the general fund for fiscal year 2006. The adopted budget projected that expenditures would exceed the available resources at the end of the year by \$148,850. Actual results from fiscal year 2006 resulted in the general fund having a fund balance deficit of just over \$100,000.

The general fund budget was adopted to complete several large projects and the money was advanced from the water and sewer funds to cover these costs. The general fund is paying back these monies with interest to the water and sewer funds. As of the date of this letter some of the advances have already been repaid.

The Township has adopted a deficit general fund budget for fiscal year 2007 as the amount of revenues over expenditures does not plan to eliminate the deficit by March 31, 2007.

The Township immediately needs to contact the Michigan Department of Treasury and file a deficit elimination plan. This is required anytime a deficit has accumulated in any fund. We strongly recommend that the board review the current financial condition of the Township's general fund and make every effort to improve its financial position by the end of fiscal year 2007.

Status of Prior Year Comments

We have reviewed the status of comments and recommendations made in the prior year, and the current status is as follows:

UTILITIES BILLING ADJUSTMENTS

Strong internal controls require monitoring and oversight of accounts that are susceptible to manipulation and misappropriation. In prior years monthly adjustments made to customer's accounts are not being reviewed on a regular basis by someone independent of the utilities billing process. We recommend a designated individual receive a monthly report of adjustments made to customer's accounts and review it paying close attention to the following items: recurring adjustments to the same accounts, adjustments to Township employee's accounts, other related party's accounts, and void transactions. After review, the individual should initial their approval and these reports should be maintained for outside verification.

During the current year we noted that the adjustments were being reviewed by the clerk. We recommend that the incoming clerk continue to monitor these utility billing adjustments.

JOURNAL ENTRIES

In performing test of controls of journal entries during the prior year we noted that there is no review process for journal entries made. We recommend an individual independent of the journal entry process look at them for proper amount, classification and for unusual items. This review process will take minimal time and needs to be done on a reoccurring basis. After review, the individual should initial their approval and these reports should be maintained for outside verification.

After reviewing journal entries made during the year ended March 31, 2006 we noted that management has altered their procedures used to make journal entries. During the current year, journal entries made by the Clerk and Treasurer were being reviewed and posted by the accountant.

Management has made progress in this area in the current year. Although this has been an improvement over past years, we believe that the controls over this area could still be improved. As an added step, we feel that all journal entries be reviewed and initialed by the Township Supervisor monthly. This would allow another level of control and create a very good audit trail for all journal entries.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with Township personnel. We will be pleased to discuss these items in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Very truly yours,



YEO & YEO, P.C.
CPAs and Business Consultants